

ELECTRIC UTILITY RESTRUCTURING AND THE LOW-INCOME CONSUMER

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What's a "Consumerco"?

Many of the concerns that low-income consumers express about electric industry restructuring arise from their inability to exercise any market power that might affect either the price or the service offered by competitive electric providers. In addition to being perceived as "hard-to-serve," low-income consumers are small users, which makes them less attractive from the perspective of a competitive electric company.

Proposals have been advanced, however, to organize low-income consumers, and others, into larger buying groups so that they can collectively seek quality electric service at reasonable rates. This process of organizing into larger buying groups is called "aggregation." One of the most promising aggregation proposals is Consumerco, an all fuels consumer cooperative.

The Purpose of Consumerco

Consumerco is a Vermont-based not-for-profit buyers' cooperative offering comprehensive energy services at competitive prices to all consumers regardless of income.

The Services Consumerco Provides

Consumerco will provide several services directly addressing low-income concerns, including:

- o The aggregation of such consumers into larger groups for purposes of negotiating prices for all types of fuel;
- o The delivery of energy efficiency to reduce bills; and
- o The maintenance and improvement of customer service and protections by providing billing and collection services

constrained by no less stringent customer service protections than existing regulations promulgated by the state utility regulatory commission.

The Basic Consumerco Approach

Consumerco offers home energy services through a full energy service enterprise. Through this full energy service approach, the enterprise will assess the most cost-effective fuel type available to fulfill the consumers end-user needs. Assistance will be provided to install that fuel type which is most economical from the consumer's perspective. Since the enterprise provides all fuels, there is no incentive to continue the provision of an uneconomic mix.

Through the combination of delivering the most effective fuel plus energy efficiency to lower consumption of whatever fuel is selected, Consumerco hopes to compete on the basis of *bill* minimization rather than *price* minimization.

The Co-op Nature of Consumerco

One essential attribute of Consumerco is its cooperative nature. Consumerco is a not-for-profit, local membership organization. As in any cooperative, Consumerco customers have legal power to participate in strategic direction and to push for responsive service.

Previous Co-op Initiatives

The potential viability of an energy services cooperative is based on the successful pursuit of cooperatives in other sectors of the economy. Health purchasing alliances and employee-based credit unions provide models.

Health purchasing alliances: One model for making health insurance available to hard-to-serve consumers is the health purchasing alliance. The Health Insurance Plan of California (HIPC) illustrates this approach. Through HIPC, the state of California allows small business employers to band together with employees covered by the California Employee Retirement System (CALPERS) to purchase health insurance. In California, HIPC extended coverage to all small business employers with 3 to 50 employees.

The experience with HIPC has been positive. The premiums available to HIPC members were roughly six percent below average premiums otherwise available. Just as importantly, in its second year of operation, HIPC premiums *fell* by six percent, while average premiums for other plans *increased* by the same amount.

In contrast to the state health purchasing cooperative model used in California are private buying co-ops. The Council of Smaller Employers (COSE, pronounced "cozy"), for example, has operated in Cleveland for two decades under the sponsorship of a local business association. COSE covers almost 150,000 people and has succeeded in limiting premium increases over a five-year period to about one-third of those for other small businesses in the area.

Credit Unions as Co-ops: Credit unions represent employer-based financial institutions and represent one of the largest set of cooperative enterprises in the country. Credit unions are often organized under the Federal Credit Union Act (FCUA). Congress passed the FCUA in response to the failed banks, high interest rates, and diminished credit opportunities that were a hallmark of the Great Depression. The purpose of the FCUA was to "establish a Federal Credit Unions System, to establish a further market for securities of the United States, and to make more available to people of small means credit for provident purposes through a national system of cooperative credit, thereby helping to stabilize the credit structure of the United States."

When they were begun, credit unions were often described as "cooperative association[s] organized. . .for the purpose of provid[ing] credit at reasonable rates to millions of individuals who--because they lack security or, as recent studies show, reside in low income areas or in communities primarily inhabited by racial minorities--would otherwise be unable to acquire it."

Summary

Through aggregation, low-income consumers seek to combine their individual buying power into a larger group capable of negotiating quality service at reasonable rates through the competitive market. The Consumerco model appears to be one of the better ways through which aggregation can occur. Through Consumerco, low-income consumers will receive service to minimize their total home energy bills while at the same time obtaining a voice in the operation and management of the energy service provider.

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